

**ELKTON-PIGEON-BAY PORT
LAKER SCHOOLS
PIGEON, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2008**

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

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CPA's On Your Team

REPORT OF INDEPENDENT AUDITORS

To The Board of Education
Elkton-Pigeon-Bay Port Laker Schools
Pigeon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton-Pigeon-Bay Port Laker Schools, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elkton-Pigeon-Bay Port Laker School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton-Pigeon-Bay Port Laker Schools as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008, on our consideration of Elkton-Pigeon-Bay Port Laker School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

(Continued)

- i -

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

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REPORT OF INDEPENDENT AUDITORS

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elkton-Pigeon-Bay Port Laker Schools' basic financial statements. The additional information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Elkton Pigeon-Bay Port Laker Schools. The additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

October 2, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents our discussion and analysis of the District's financial performance during the school year ended June 30, 2008. The intent of this discussion and analysis is to provide, in layman's terms, a look at the District's performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

The General fund showed revenue exceeded expenditures by \$151,606. This is more than the original budget had anticipated.

The Athletic fund showed expenditures exceeded revenue in the amount of \$1,846.

The Capital projects fund showed expenditures exceeded revenue by \$73,204. The District completed the project, and the remaining \$5,515 was transferred to the General Fund.

The Food Service fund showed revenue exceeded expenditures in the amount of \$38,970.

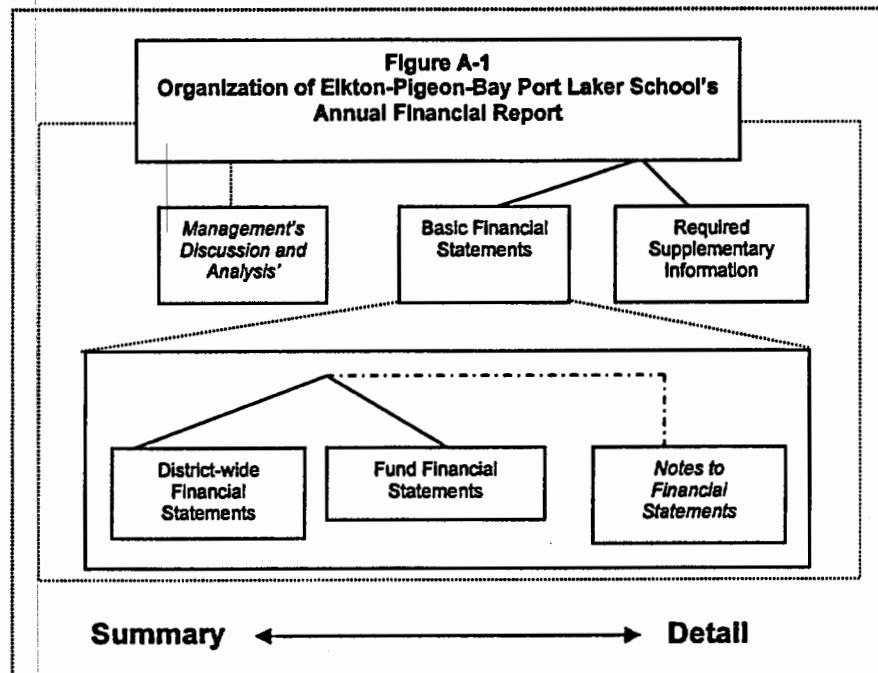
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.

The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short term* as well as what remains for future spending.



Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

| <p style="text-align: center;">Figure A-2 Major Features of District-Wide and Fund Financial Statements</p> | | | |
|--|--|--|--|
| | <u>District-wide Statements</u> | <u>Fund Financial Statements</u> | |
| | | <u>Governmental Funds</u> | <u>Fiduciary Funds</u> |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | * Statement of net assets * Statement of activities | * Balance sheet * Statement of revenues, expenditures and changes in fund balances | * Statement of fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term, Elkton-Pigeon-Bay Port Laker Schools funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid |

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

Government funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's net assets increased by \$93,282 during the fiscal year 2008. The increase was primarily due to the surplus in the General Fund and the Food Service Fund.

(Continued)

The statement of net assets provides the perspective of the District as a whole. Table A-3 provides a summary of the District's net assets as of June 30, 2008 and 2007.

Table A-3
Elkton-Pigeon-Bay Port Laker Schools

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Current and other assets | \$ 3,959,427 | \$ 3,947,832 |
| Capital assets, less accumulated depreciation | <u>10,901,302</u> | <u>11,279,818</u> |
| Total assets | <u>\$14,860,729</u> | <u>\$15,227,652</u> |
| Current liabilities | \$ 2,673,361 | \$ 2,753,529 |
| Noncurrent liabilities | <u>9,476,749</u> | <u>9,856,786</u> |
| Total liabilities | <u>\$12,150,110</u> | <u>\$12,610,314</u> |
| Net assets: | | |
| Invested in capital assets net of related debt | \$ 1,011,274 | \$ 1,017,666 |
| Restricted for debt service | 280,675 | 313,743 |
| Restricted for capital projects | | 73,204 |
| Unrestricted | <u>1,418,670</u> | <u>1,212,725</u> |
| Total net assets | <u>\$ 2,710,619</u> | <u>\$ 2,617,337</u> |

The statement of activities shows the results of this year's operations for Elkton-Pigeon-Bay Port Laker Schools as a whole. Table A-4 shows the changes in net assets of the District as of June 30, 2008 and 2007.

Table A-4
Changes in Elkton-Pigeon-Bay Port Laker School's Net Assets

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------|------------------|--------------------|
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 598,720 | \$ 588,096 |
| Federal and State categorical grants | 526,538 | 576,793 |
| General revenues: | | |
| Property taxes | 2,811,909 | 2,609,785 |
| State aid - unrestricted | 5,400,483 | 5,855,055 |
| Other | <u>162,762</u> | <u>309,513</u> |
| Total revenues | <u>9,500,412</u> | <u>9,939,242</u> |
| Expenses | | |
| Instruction | 5,371,754 | 5,723,638 |
| Support services | 2,446,363 | 2,590,301 |
| Food services | 420,043 | 443,875 |
| Athletics | 212,428 | 214,457 |
| Interest on long-term debt | 494,454 | 518,354 |
| Unallocated depreciation | <u>462,089</u> | <u>500,291</u> |
| Total expenses | <u>9,407,130</u> | <u>9,990,914</u> |
| Increase (Decrease) in net assets | <u>\$ 93,282</u> | <u>\$ (51,673)</u> |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Elkton-Pigeon-Bay Port Laker School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight in the District's overall financial health.

Table A-5 shows the breakdown of the sources of revenue for the District. A substantial portion (57%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan.

Table A-5

Sources of Revenue for Fiscal Year 2007/2008

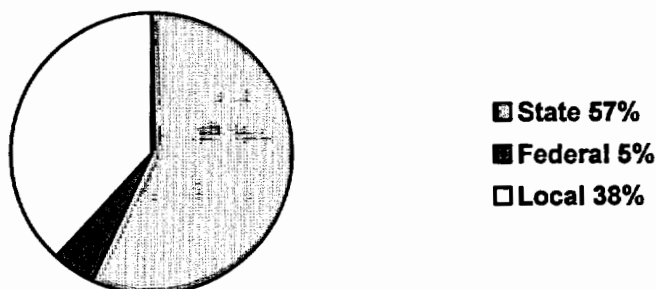
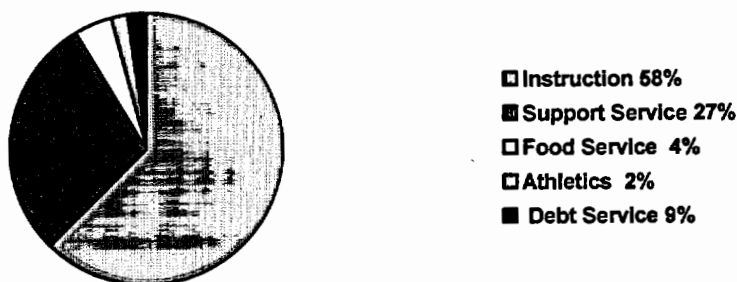


Table A-6 shows that the 58% of the District's resources are spent on instruction services and 27% on support services. These two functions make up 85% of the District's expenditures.

Table A-6



The financial performance of the district as a whole is reflected in its governmental funds. As the District completed the 2007/2008 school year, the governmental funds reported a combined fund balance of \$1,727,720. The Fiduciary Funds had a balance of \$169,660.

Factors Affecting Fund Equity

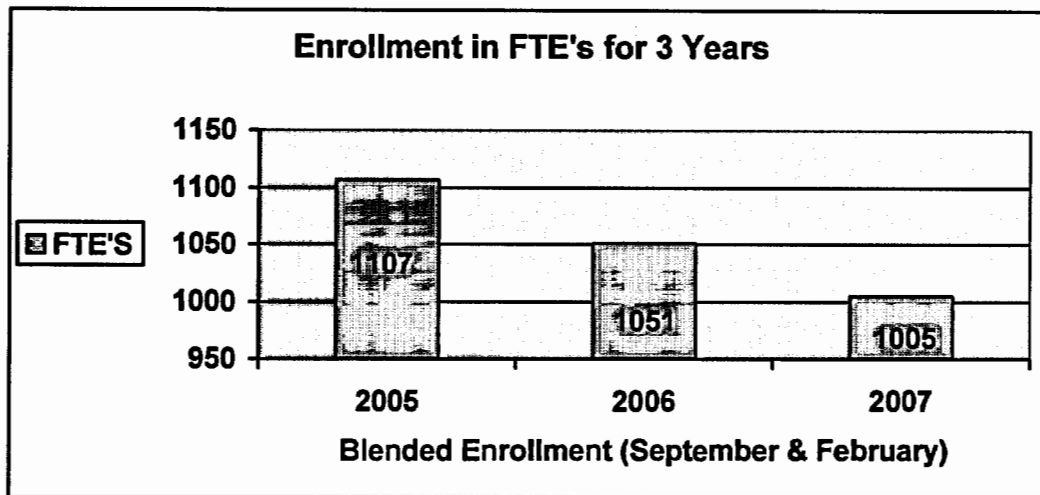
- *General Fund Equity* – Increased \$151,606.

Grants – The District received grants for professional development, parent programs, at risk, and literacy programs. These help to offset the cost of instructional budget items normally paid from fund equity.

(Continued)

- *Debt Service Fund Equity* – Decreased \$33,068.
- *Food Service Fund Equity* – Increased \$38,970.
- *Student Enrollment*

The chart below shows the steady decline in enrollment for the past 3 years. There was a decline of 46 students between 2007 and 2008 with state aid at \$7,204 per student; this is a loss of revenue of \$331,384



- *State Aid*
The State of Michigan finalized the student foundation allowance for 2007/08 in the amount of \$7,204 per student. That was a \$119 per student increase from the 2006/07 year.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

Initial budget amendments were made to reflect the impact of changes to increases in grant funds, the impact of actual student counts and finalizing the amount to be received in state aid. Also, budget amendments were required to reflect staffing changes and contract settlements.

Original revenues were budgeted at \$7,949,776 and the actual revenue amount was \$8,260,901. The original budget amount for expenditures and transfers was \$7,938,716 and the actual figure was \$8,109,295.

Capital Asset and Debt Administration

Capital Assets

The District's capital additions for the year are as follows:

| | |
|-----------------------------------|------------------|
| Capital Project fund expenditures | \$ 34,000 |
| FFA Greenhouse | 35,708 |
| Corn pellet burner | 21,698 |
| Other equipment | <u>16,178</u> |
| Total additions | <u>\$107,584</u> |

The District's capital assets at year-end are outlined in Table A-5.

Table A-5
Elkton-Pigeon-Bay Port Laker Schools Capital Assets

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Buildings | \$11,771,100 | \$11,735,392 |
| Buses | 1,053,872 | 1,109,460 |
| General Equipment | 1,041,844 | 1,017,546 |
| Lawn and Maintenance | 100,840 | 100,840 |
| Playground, Athletic, Site Improvement | 2,244,604 | 2,210,604 |
| Technology | <u>379,534</u> | <u>365,956</u> |
| Totals | <u>\$16,591,794</u> | <u>\$16,539,798</u> |

Debt Administration

As of June 30, 2008, the District had debt on the financial statements for the 2000 School Building and Site bonds in the amount of \$710,000. A portion of these bonds will mature each year with a final payment due in 2010.

As of June 30, 2008, the District had debt on the financial statements for the 2005 refunding bonds in the amount of \$8,645,000. Principal payments start in 2011 with the final payment due in 2025.

As of June 30, 2008, the District had compensated absences and employee severance payments payable, which include accumulated sick and vacation pay, totaling \$225,753.

We present more detailed information about our long-term liabilities in the notes to financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several areas that could have a major impact on the 2009 fiscal year, and the near future.

The State of Michigan has finalized the student foundation allowance for 2008-09. An increase of the current level of funding has been approved and the new level of state funding will pay \$7,316 per FTE. This increase will have a significant and negative impact on the school budget since employee benefits and energy costs continue to increase faster than revenue sources from the State.

Health insurance costs continue to escalate. In an effort to reduce expenses, the District has moved all employees to a Health Savings Account insurance program, but will still realize an approximate 12% increase in costs for 2008-2009.

District pension costs have been rising at a rapid rate. However for next year a decrease from 16.72% per salary dollar to 16.54% per salary dollar has been approved by the State of Michigan.

Student enrollment projections continue to indicate a decline. The decline in enrollment along with the State's depressed economic status will make it difficult to cover the anticipated increases in personnel costs.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer, EPBP Laker Schools, 6136 Pigeon Road, Pigeon, Michigan, 48755, and telephone number (989) 453-4602.

BASIC FINANCIAL STATEMENTS

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

| | | GOVERNMENTAL ACTIVITIES |
|---------------------------------|----|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and deposits | \$ | 977,496 |
| Investments | | 1,858,699 |
| Accounts receivable | | 1,107,460 |
| Prepaid expenses | | 15,771 |
| TOTAL CURRENT ASSETS | | <u>3,959,427</u> |
| NON-CURRENT ASSETS: | | |
| Deferred charges | | 319,091 |
| Bond issuance costs | | 138,246 |
| Less: Accumulated amortization | | (25,136) |
| Depreciated capital assets | | 16,591,794 |
| Less: Accumulated depreciation | | <u>(6,122,693)</u> |
| TOTAL NON-CURRENT ASSETS | | <u>10,901,302</u> |
| TOTAL ASSETS | \$ | <u>14,860,729</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

**GOVERNMENTAL
ACTIVITIES**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

| | |
|--|------------|
| Accounts payable | \$ 124,015 |
| Salaries payable | 760,222 |
| Accrued interest payable | 72,548 |
| Deferred revenue | 47,469 |
| State aid note payable | 1,300,000 |
| Current portion of long-term obligations | 369,107 |

TOTAL CURRENT LIABILITIES

2,673,361

NON-CURRENT LIABILITIES:

| | |
|--|------------------|
| Bus note payable | 102,827 |
| Bonds payable | 9,355,000 |
| Bond premium | 162,276 |
| Compensated absences | 225,753 |
| Less: Current portion of long-term obligations | <u>(369,107)</u> |

TOTAL NON-CURRENT LIABILITIES

9,476,749

TOTAL LIABILITIES

12,150,110

NET ASSETS

| | |
|---|------------------|
| Invested in capital assets, net of related debt | 1,011,274 |
| Restricted for: | |
| Debt service | 280,675 |
| Unrestricted | <u>1,418,670</u> |

TOTAL NET ASSETS

2,710,619

TOTAL LIABILITIES AND NET ASSETS

\$ 14,860,729

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

| FUNCTIONS/PROGRAMS | Program revenues | | | GOVERNMENTAL ACTIVITIES |
|---|---------------------|-------------------------|--|---|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | Net (expenses) revenue and changes in net assets |
| Governmental activities: | | | | |
| Instruction | \$ 5,371,754 | \$ 266,316 | \$ 261,701 | \$ (4,843,737) |
| Support services | 2,446,364 | 56,515 | 5,658 | (2,372,601) |
| Food service | 420,043 | 209,800 | 247,588 | 37,345 |
| Athletics | 212,428 | 66,089 | | (146,339) |
| Interest on long-term obligations | 494,454 | | | (494,454) |
| Depreciation - Unallocated | 462,089 | | | (462,089) |
| Total governmental activities: | \$ 9,407,130 | \$ 598,720 | \$ 514,947 | (8,281,873) |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 2,105,976 |
| Property taxes, levied for debt service | | | | 705,933 |
| State aid | | | | 5,400,483 |
| Investment earnings | | | | 71,559 |
| Miscellaneous | | | | 107,203 |
| Transfers out | | | | (16,000) |
| Total general revenue | | | | 8,375,155 |
| CHANGE IN NET ASSETS | | | | 93,282 |
| NET ASSETS - Beginning | | | | 2,617,337 |
| NET ASSETS - Ending | | | | \$ 2,710,619 |

The accompanying notes are an integral part of the financial statements.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

| | <u>GENERAL</u> | <u>DEBT SERVICE</u> | <u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|----------------------------|--------------------------|--|---|
| <u>ASSETS</u> | | | | |
| Cash and deposits | \$ 850,273 | \$ 2,000 | \$ 125,223 | \$ 977,496 |
| Investments | 1,580,023 | 278,675 | - | 1,858,699 |
| Accounts receivable | 1,101,177 | | 6,284 | 1,107,460 |
| Due from other funds | 273 | | | 273 |
| Prepaid expenses | 14,145 | | 1,626 | 15,771 |
| TOTAL ASSETS | <u>\$ 3,545,891</u> | <u>\$ 280,675</u> | <u>\$ 133,133</u> | <u>\$ 3,959,699</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 109,951 | | \$ 14,064 | \$ 124,015 |
| State aid note payable | 1,300,000 | | | 1,300,000 |
| Due to other funds | | | 273 | 273 |
| Accrued salaries and wages | 760,222 | | | 760,222 |
| Deferred revenue | 42,350 | | 5,119 | 47,469 |
| TOTAL LIABILITIES | <u>2,212,523</u> | | <u>19,456</u> | <u>2,231,979</u> |
| <u>FUND BALANCE:</u> | | | | |
| Unreserved | 1,333,368 | \$ 280,675 | 113,677 | 1,727,720 |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 3,545,891</u> | <u>\$ 280,675</u> | <u>\$ 133,133</u> | <u>\$ 3,959,699</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET ASSETS
JUNE 30, 2008**

TOTAL GOVERNMENTAL FUND BALANCES **\$ 1,727,720**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

| | | |
|-------------------------------|--------------------|------------|
| The cost of capital assets is | 16,591,794 | |
| Accumulated depreciation is | <u>(6,122,693)</u> | 10,469,101 |

Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year-end consist of :

| | | |
|---|---------------|-------------|
| Bonds payable | 9,355,000 | |
| Bus note payable | 102,827 | |
| Compensated absences | 225,753 | |
| Accrued interest payable on Long-term Obligations | <u>72,548</u> | (9,756,128) |

Certain transactions related to the advance refunding of the 2000 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

The transactions include the following:

| | | |
|---|-----------------|-----------|
| Bond issuance cost | 138,246 | |
| Less: Amortization | <u>(25,136)</u> | 113,110 |
| Deferred loss of 2005 Refunding Bond to call date | 390,000 | |
| Less: Amortization of deferred loss | <u>(70,909)</u> | 319,091 |
| 2005 Refunding Bonds issued at a premium | (198,337) | |
| Less: Amortization of bond premium | <u>36,061</u> | (162,276) |

NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 2,710,619**

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

| | <u>GENERAL</u> | <u>DEBT SERVICE</u> | <u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|---|---------------------|-------------------------|--|---|
| REVENUE: | | | | |
| Local sources: | | | | |
| Taxes | \$ 2,105,976 | \$ 705,933 | | \$ 2,811,910 |
| Food service | | | \$ 211,425 | 211,425 |
| Athletics | | | 66,196 | 66,196 |
| Other local revenue | 487,081 | 12,203 | 576 | 499,861 |
| State sources | 5,400,483 | | 29,993 | 5,430,476 |
| Federal sources | 267,360 | | 217,595 | 484,956 |
| TOTAL REVENUE | <u>8,260,900</u> | <u>718,137</u> | <u>525,785</u> | <u>9,504,823</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Education | | | | |
| Instruction | 5,364,439 | | | 5,364,439 |
| Supporting services | 2,511,201 | | | 2,511,201 |
| Food service | | | 420,043 | 420,043 |
| Athletics | | | 212,428 | 212,428 |
| Capital projects | | | 68,265 | 68,265 |
| Debt service: | | | | |
| Principal repayment | 23,113 | 325,000 | | 348,113 |
| Interest and fiscal charges | 55,671 | 426,204 | | 481,875 |
| TOTAL EXPENDITURES | <u>7,954,424</u> | <u>751,204</u> | <u>700,735</u> | <u>9,406,363</u> |
| EXCESS OF REVENUE OVER (UNDER) EXPENDITURES | <u>306,477</u> | <u>(33,068)</u> | <u>(174,951)</u> | <u>98,459</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers to other governments | (16,000) | | | (16,000) |
| Interfund transfers | (138,871) | | 138,871 | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(154,871)</u> | | <u>138,871</u> | <u>(16,000)</u> |
| EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | <u>151,606</u> | <u>(33,068)</u> | <u>(36,080)</u> | <u>82,458</u> |
| FUND BALANCE-JULY 1 | 1,181,762 | 313,743 | 149,757 | 1,645,262 |
| FUND BALANCE-JUNE 30 | <u>\$ 1,333,368</u> | <u>\$ 280,675</u> | <u>\$ 113,677</u> | <u>\$ 1,727,720</u> |

The accompanying notes are an integral
part of the financial statements.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 82,458

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

| | | |
|------------------------------|---------------|-----------|
| Depreciation expense | (462,089) | |
| Fair value of donated assets | 11,591 | |
| Capital outlays | <u>95,993</u> | (354,505) |

In the statement of activities special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

| | | |
|--|----------|--------|
| Employee severance program - beginning of year | 27,880 | |
| Employee severance program - end of year | <u>-</u> | 27,880 |

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 325,000

Bus and equipment note repayments affect long term liabilities in the statement of net assets and do not affect the statement of activities. 23,113

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

| | | |
|--|-----------------|-------|
| Accrued interest payable - beginning of year | 74,966 | |
| Accrued interest payable - end of year | <u>(72,548)</u> | 2,418 |

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

| | | |
|--|------------------|-------|
| Accrued compensated absences - beginning of year | 227,667 | |
| Accrued compensated absences - end of year | <u>(225,753)</u> | 1,914 |

Certain transactions related to the advance refunding of the 2000 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements. The transactions include the following:

| | | |
|------------------------------------|------------------|----------|
| Deferred loss beginning of year | (336,818) | |
| Deferred loss end of year | 319,091 | |
| Deferred charges beginning of year | (119,394) | |
| Deferred charges end of year | 113,110 | |
| Bond premium beginning of year | 171,292 | |
| Bond premium end of year | <u>(162,276)</u> | (14,996) |

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 93,282

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008**

| | <u>AGENCY FUNDS</u> |
|------------------------------|--------------------------------|
| ASSETS | |
| Cash and equivalents | \$ 169,660 |
| TOTAL ASSETS | <u>\$ 169,660</u> |
| LIABILITIES: | |
| Due to student organizations | \$ 169,660 |
| TOTAL LIABILITIES | <u>\$ 169,660</u> |

The accompanying notes are an integral
part of the financial statements.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Elkton-Pigeon-Bay Port Laker School District is a consolidated school system located in Huron County, Michigan. The School has approximately 1,005 students in grades kindergarten through twelve. The school operates under a seven person elected Board of Education.

The basic financial statements of Elkton-Pigeon-Bay Port Laker School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

The Reporting Entity:

The Elkton-Pigeon-Bay Port Laker Schools (the "District") is governed by the Elkton-Pigeon-Bay Port Laker Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government-Wide and Fund Financial Statements: (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following **major** governmental funds:

General Fund - This fund type is used to account for all financial transactions except those required to be accounted for in another fund. Revenue is derived primarily from property taxes and State and Federal distributions, grants and other intergovernmental revenue.

Debt Service Fund - The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other Non-major Funds:

Capital Projects Fund – The Capital Projects Fund accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Special Revenue Funds - This fund type is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The combined Special Revenue Fund financial statements include the Food Service and Athletic Services Funds.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Non-major Funds: (Continued)

Fiduciary Fund – This fund accounts for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

Agency Fund - This fund accounts for assets held in trust or as an agency for others. The District's Agency Fund is the Student Activity Fund.

Measurement Focus, Basis of Accounting, and Basis of Presentation

Accrual Method:

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as does the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method:

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the pupil membership counts taken in February and September of 2007.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Basis of Presentation: (Continued)

State Revenue: (Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as accounts receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Other Accounting Policies:

Cash and Equivalents:

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Property Taxes:

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the taxes become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of assessed valuation:

| <u>Fund</u> | <u>Mills</u> |
|---|---------------------|
| General Fund – Non-homestead | 18.0 |
| Debt service fund – Homestead and non-homestead | 2.0 |

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Prepaid Expenses:

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets:

Capital assets, which include buildings, furniture and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Improvements, buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Capital Assets: (Continued)

| <u>Assets</u> | <u>Years</u> |
|-------------------------------|---------------------|
| Buildings and additions | 50 |
| Furniture and other equipment | 5-20 |

Compensated Absences:

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

Employee Severance Program:

The District has in place a teacher/administration separation plan, which provides for a payout to the separating employees over/up to 8 years. The District contracted with Educators Preferred Corporation as the agent for the plan.

Unemployment Insurance:

The District reimburses the Michigan Employment Security Agency (MESA) for the actual amount of unemployment benefits disbursed by the MESA on behalf of the District. Billings received for amounts paid by the MESA through June 30 are accrued, if material.

Long-Term Debt:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(Continued)

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS:

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Government-wide Financial Statement Captions:

| | |
|-------------------|------------|
| Cash and deposits | \$ 977,496 |
| Investments | 1,858,699 |

Statement of Fiduciary Net Assets

| | |
|---------------------------|--------------------|
| Cash and cash equivalents | 169,660 |
| Total | <u>\$3,005,855</u> |

Notes to Financial Statements:

| | |
|-------------|--------------------|
| Deposits | \$1,147,156 |
| Investments | <u>1,858,699</u> |
| Total | <u>\$3,005,855</u> |

As of June 30, 2008, the District had the following investments.

| <u>INVESTMENT TYPE</u> | <u>FAIR VALUE</u> | <u>WEIGHTED AVERAGE MATURITY (YEARS)</u> | <u>STANDARD & POOR'S RATING</u> | <u>%</u> |
|--------------------------------------|-----------------------|--|---|-------------|
| MILAF External Investment pool-MIMAX | <u>\$1,858,699</u> | 0.0027 | AAAm | <u>100%</u> |
| Total fair value | <u>\$1,858,699</u> | | | <u>100%</u> |

Portfolio weighted average maturity 0.0027

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$2,980,012 of the District's bank balance of \$3,227,333 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Included in the totals above are certificates of deposit of \$47,322 and other interest bearing deposits.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

| | <u>FUND</u> | <u>INTERFUND RECEIVABLE</u> | <u>INTERFUND PAYABLE</u> |
|--------------|-------------|---------------------------------|------------------------------|
| General Fund | | \$273 | |
| Food Service | | | \$273 |
| Total | | <u>\$273</u> | <u>\$273</u> |

For the fiscal year ended June 30, 2008, the Food Service Fund owed the General Fund for cleanup of salary and benefits.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 5 – RECEIVABLES:

Receivables at June 30, 2008 consist of the following:

| | |
|----------------------------------|--------------------|
| General Fund: | |
| Grants receivable | \$ 95,045 |
| SET/SEG insurance refund | 22,940 |
| State aid | 978,382 |
| Miscellaneous | 4,810 |
| Total | <u>1,101,177</u> |
| Food Service-State Aid & Rebates | 6,283 |
| Total receivables | <u>\$1,107,460</u> |

No allowance for uncollectible accounts is considered necessary for the governmental funds reporting.

NOTE 6 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

| | <u>BALANCE JULY 1, 2007</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE JUNE 30, 2008</u> |
|---------------------------------------|---------------------------------|--------------------|------------------|----------------------------------|
| Capital Assets: | | | | |
| Buildings and Additions | \$11,735,392 | \$ 35,708 | | \$11,771,100 |
| Playground, Athletic, Site Imp. | 2,210,604 | 34,000 | | 2,244,604 |
| General Equipment | 1,017,546 | 24,298 | | 1,041,844 |
| Lawn Maintenance | 100,840 | | | 100,840 |
| Technology | 365,956 | 13,578 | | 379,534 |
| School Buses | <u>1,109,460</u> | | <u>\$55,588</u> | <u>1,053,872</u> |
| Total Capital Assets | <u>16,539,798</u> | <u>107,584</u> | <u>55,588</u> | <u>16,591,794</u> |
| Accumulated Depreciation: | | | | |
| Buildings and Additions | 2,859,665 | 242,280 | | 3,101,945 |
| Playground, Athletic, Site Imp. | 874,540 | 93,043 | | 967,583 |
| General Equipment | 610,818 | 50,637 | | 661,455 |
| Lawn Maintenance | 91,489 | 3,523 | | 95,012 |
| Technology | 361,677 | 16,108 | | 377,785 |
| School Buses | <u>918,003</u> | <u>56,498</u> | <u>55,588</u> | <u>918,913</u> |
| Total Accumulated Depreciation | <u>5,716,192</u> | <u>462,089</u> | <u>55,588</u> | <u>6,122,693</u> |
| Capital Assets-Net | <u>\$10,823,606</u> | <u>\$(354,505)</u> | <u>\$ -</u> | <u>\$10,469,101</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|------------------|
| Depreciation – Unallocated | \$462,089 |
| Total Depreciation Expense | <u>\$462,089</u> |

(Continued)

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 7 – DEFERRED REVENUE:

Deferred revenue reported in the governmental funds at year end consisted of the following:

| | |
|------------------------|-----------------|
| General Fund: | |
| At Risk Grant | \$ 3,931 |
| Power House | 9,146 |
| Medicaid | <u>29,273</u> |
| Total | 42,350 |
| Athletic Fund – bricks | <u>5,119</u> |
| Total deferred revenue | <u>\$47,469</u> |

NOTE 8 – NOTE PAYABLE:

At June 30, 2008, the District has a \$1,300,000 revenue note (state aid note) outstanding. The note which has an interest rate of 3.68% matures August 20, 2008. The note is secured by the full faith and credit of the District as well as pledged state aid.

| <u>BALANCE</u> <u>JUNE 30, 2007</u> | <u>ADDITIONS</u> | <u>PAYMENTS</u> | <u>BALANCE</u> <u>JUNE 30, 2008</u> |
|--|------------------|-----------------|--|
| \$1,400,000 | \$1,300,000 | \$1,400,000 | \$1,300,000 |

NOTE 9 – LONG-TERM DEBT AND LOANS PAYABLE:

The District issues general obligation bonds to provide funds for the construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

| | |
|--|--------------------|
| 2000 general obligation bonds due in annual installments of \$290,000 to \$365,000 through May 1, 2010 with interest at 5.125%. | \$ 710,000 |
| 2005 general obligation refunding bonds due in annual installments of \$430,000 to \$645,000 starting May 1, 2011 through May 1, 2025 with interest at 4.00% to 5.00%. | 8,645,000 |
| Total general obligation bonds | <u>9,355,000</u> |
| Bus note with interest rate of 3.95% and annual payments due July 17, 2007 through July 17, 2011. | 102,827 |
| Obligation under contract for compensated absences | 225,753 |
| Total general long-term debt | <u>\$9,683,580</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 9 – LONG-TERM DEBT AND LOANS PAYABLE: (CONTINUED)

The annual requirements to amortize the long-term obligations as of June 30, 2008, including interest of \$3,940,173 are as follows:

| <u>Years ending June 30,</u> | <u>Total</u> |
|--|----------------------------|
| 2009 | \$ 783,516 |
| 2010 | 785,834 |
| 2011 | 832,128 |
| 2012 | 839,928 |
| 2013 | 813,650 |
| 2014-2018 | 4,093,800 |
| 2019-2023 | 3,874,972 |
| 2024-2025 | <u>1,374,172</u> |
| | 13,398,000 |
| Obligation under contract for compensated absences | 225,753 |
| Total general long-term debt and interest | <u>\$13,623,753</u> |

An amount of \$280,675 is available in the debt service fund to service the general obligation debt. Interest expense for all funds for the year ended June 30, 2008 was \$481,875.

The following is a summary of the changes in the long-term liabilities during the year ended June 30, 2008:

| | <u>BALANCE JUNE 30, 2007</u> | <u>ADDITIONS</u> | <u>REDUCTIONS</u> | <u>BALANCE JUNE 30, 2008</u> | <u>DUE WITHIN ONE YEAR</u> |
|---|----------------------------------|------------------|-------------------|----------------------------------|--------------------------------|
| 2000 General obligation bonds | \$ 1,035,000 | | \$325,000 | \$ 710,000 | \$345,000 |
| 2005 Refunding General obligation bonds | 8,645,000 | | | 8,645,000 | |
| Compensated absences | 227,667 | | 1,914 | 225,753 | |
| Accrued early retirement incentives | 27,880 | | 27,880 | | |
| Note payable | <u>125,940</u> | | <u>23,113</u> | <u>102,827</u> | <u>24,107</u> |
| Totals | <u>\$10,061,487</u> | <u>\$ -</u> | <u>\$377,907</u> | <u>\$9,683,580</u> | <u>\$369,107</u> |

NOTE 10 – INTERFUND TRANSFERS:

During the year ended June 30, 2008, the general fund transferred \$144,386 to the athletic fund to cover wages and employee benefits. Also during the year, the Capital projects fund was closed and the remaining \$5,515 was transferred to the General Fund.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (517) 322-5103.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the year ended June 30, 2008, the rate was 17.74% through September 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of the plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the years ended June 30, 2008, 2007, and 2006 were approximately \$750,461, \$850,137, and \$794,836, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Postemployment Benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 12 – OPERATING LEASES:

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the unpaid balances of the lease agreements are not reflected in the District's long-term debt.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2008.

| Years ending June 30, | Amounts |
|----------------------------------|------------------|
| 2009 | \$ 30,000 |
| 2010 | 30,000 |
| 2011 | 30,000 |
| 2012 | <u>27,500</u> |
| Total minimum payments required | <u>\$117,500</u> |

NOTE 13 – RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors and omissions.

NOTE 14 – SUBSEQUENT EVENTS:

Subsequent to year-end, the District entered into an agreement to borrow \$1,400,000 in a State aid note bearing interest at 1.70% and maturing August 20, 2009. The note is secured by the full faith and credit of the District as well as pledged state aid.

**REQUIRED SUPPLEMENTARY
INFORMATION**

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>BUDGETED AMOUNTS</u> | | | <u>VARIANCE WITH</u> |
|--|-------------------------|---------------------|---------------------|----------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>ACTUAL</u> | <u>FINAL BUDGET</u> |
| REVENUE: | | | | |
| Local sources: | | | | |
| Taxes | \$ 2,098,665 | \$ 2,103,950 | \$ 2,105,976 | \$ 2,026 |
| Interest | 45,710 | 55,000 | 57,797 | 2,797 |
| Other local revenue | 379,989 | 411,660 | 429,284 | 17,624 |
| State sources: | | | | |
| State school aid-Restricted | 227,402 | 385,430 | 394,265 | 8,835 |
| Other state aid revenue | 4,945,278 | 5,011,000 | 5,006,219 | (4,781) |
| Federal sources | 252,732 | 265,731 | 267,360 | 1,629 |
| TOTAL REVENUE | <u>7,949,776</u> | <u>8,232,771</u> | <u>8,260,900</u> | <u>28,131</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Education: | | | | |
| Instruction | 5,124,900 | 5,418,324 | 5,364,439 | 53,885 |
| Supporting services | 2,561,550 | 2,548,759 | 2,511,201 | 37,558 |
| Debt service: | | | | |
| Principal repayment | 23,200 | 23,200 | 23,113 | 87 |
| Interest and fiscal charges | 62,100 | 55,950 | 55,671 | 279 |
| TOTAL EXPENDITURES | <u>7,771,750</u> | <u>8,046,233</u> | <u>7,954,424</u> | <u>91,809</u> |
| EXCESS OF REVENUE OVER EXPENDITURES | <u>178,026</u> | <u>186,538</u> | <u>306,477</u> | <u>119,940</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers to other governments | (20,000) | (16,000) | (16,000) | - |
| Transfer from closing Capital projects fund | | | 5,515 | 5,515 |
| Interfund transfers | (146,966) | (144,275) | (144,386) | (111) |
| TOTAL OTHER FINANCING (USES) | <u>(166,966)</u> | <u>(160,275)</u> | <u>(154,871)</u> | <u>5,404</u> |
| EXCESS OF REVENUE EXPENDITURES AND OTHER USES | <u>11,060</u> | <u>26,263</u> | <u>151,606</u> | <u>125,343</u> |
| FUND BALANCE - JULY 1 | 1,181,762 | 1,181,762 | 1,181,762 | |
| FUND BALANCE - JUNE 30 | <u>\$ 1,192,822</u> | <u>\$ 1,208,025</u> | <u>\$ 1,333,368</u> | <u>\$ 125,343</u> |

**ADDITIONAL
INFORMATION**

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

| | <u>FOOD SERVICE</u> | <u>ATHLETIC ACTIVITIES</u> | <u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u> |
|--|------------------------------|--------------------------------|--|
| <u>ASSETS</u> | | | |
| CURRENT ASSETS: | | | |
| Cash | \$ 111,335 | \$ 13,888 | \$ 125,223 |
| Accounts receivable | 6,284 | | 6,284 |
| Prepaid expenses | 1,296 | 330 | 1,626 |
| TOTAL ASSETS | <u>\$ 118,915</u> | <u>\$ 14,218</u> | <u>\$ 133,133</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | |
| LIABILITIES | | | |
| Accounts payable | | \$ 1,719 | \$ 1,719 |
| Prepaid meals | \$ 12,345 | | 12,345 |
| Due to other funds | 273 | - | 273 |
| Deferred revenue | | 5,119 | 5,119 |
| TOTAL LIABILITIES | 12,618 | 6,838 | 19,456 |
| FUND BALANCE | 106,296 | 7,381 | 113,677 |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 118,915</u> | <u>\$ 14,218</u> | <u>\$ 133,133</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>FOOD SERVICE</u> | <u>ATHLETIC ACTIVITIES</u> | <u>CAPITAL PROJECTS</u> | <u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u> |
|---|-------------------------|--------------------------------|-----------------------------|--|
| REVENUE: | | | | |
| Local sources: | | | | |
| Sale of meals | \$ 209,800 | | | \$ 209,800 |
| Miscellaneous | 750 | \$ 5,769 | | 6,519 |
| Admissions and entry fees | | 60,320 | | 60,320 |
| Earnings on investments | 875 | 107 | \$ 576 | 1,558 |
| Total local sources | 211,425 | 66,196 | 576 | 278,197 |
| State sources | 29,993 | | | 29,993 |
| Federal sources: | | | | |
| Reimbursements | 186,427 | | | 186,427 |
| Commodities | 31,168 | | | 31,168 |
| TOTAL REVENUE | <u>459,013</u> | <u>66,196</u> | <u>576</u> | <u>525,785</u> |
| EXPENDITURES: | | | | |
| Food | 226,524 | | | 226,524 |
| Salaries and wages | 106,184 | 119,868 | | 226,052 |
| Employee benefits | 58,539 | 13,501 | | 72,040 |
| Officials | | 21,944 | | 21,944 |
| Conferences & Workshops | - | 2,785 | | 2,785 |
| Supplies | 16,059 | 39,152 | | 55,211 |
| Repairs | 5,401 | | | 5,401 |
| Miscellaneous | 7,336 | 15,177 | | 22,513 |
| Capital outlay | - | | 68,265 | 68,265 |
| TOTAL EXPENDITURES | <u>420,043</u> | <u>212,428</u> | <u>68,265</u> | <u>700,735</u> |
| EXCESS OF REVENUE OVER (UNDER) EXPENDITURES | <u>38,970</u> | <u>(146,232)</u> | <u>(67,689)</u> | <u>(174,951)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfer from other funds | | 144,386 | | 144,386 |
| Transfer to close Capital projects fund | | | (5,515) | (5,515) |
| TOTAL OTHER FINANCING SOURCES (USES) | | <u>144,386</u> | <u>(5,515)</u> | <u>138,871</u> |
| EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | <u>38,970</u> | <u>(1,846)</u> | <u>(73,204)</u> | <u>(36,080)</u> |
| FUND BALANCE - JULY 1 | 67,326 | 9,227 | 73,204 | 149,757 |
| FUND BALANCE - JUNE 30 | <u>\$ 106,296</u> | <u>\$ 7,381</u> | <u>\$ -</u> | <u>\$ 113,677</u> |

ELKTON-PIGEON-BAY PORT LAKER SHCOOLS

SCHEDULES OF GENERAL FUND REVENUE

| | YEARS ENDED JUNE 30, | |
|--|-------------------------|---------------------|
| | <u>2008</u> | <u>2007</u> |
| REVENUE FROM LOCAL SOURCES: | | |
| Property tax: | | |
| Current tax levy | \$ 2,105,976 | \$ 1,896,386 |
| Tuition and fees | 56,515 | 58,158 |
| Earnings on investments | 57,797 | 71,856 |
| Rentals | 5,976 | 4,762 |
| Local source received thru ISD | 64,528 | 43,802 |
| Special education reimbursement | 201,788 | 240,911 |
| Sale of fixed assets | 1,800 | 5,970 |
| Insurance reimbursement | 32,826 | 55,458 |
| Miscellaneous | 65,852 | 80,864 |
| TOTAL REVENUE FROM LOCAL SOURCES | <u>2,593,058</u> | <u>2,458,167</u> |
| REVENUE FROM STATE SOURCES: | | |
| State aid - Restricted | 394,265 | 397,148 |
| Windmill Grant | - | 27,130 |
| Other state aid revenue | 5,006,219 | 5,430,777 |
| TOTAL REVENUE FROM STATE SOURCES | <u>5,400,483</u> | <u>5,855,055</u> |
| REVENUE FROM FEDERAL SOURCES: | | |
| Federal aid, restricted- | | |
| Received through the State: | | |
| Title I grant | 171,827 | 196,031 |
| Title V grant | 2,447 | 2,629 |
| Title II, Part A -Tech. Literacy Challenge | 68,827 | 104,106 |
| Title II, Part D -Improving Teacher Quality | 2,354 | 2,109 |
| Safe & Drug-free Schools & Communities | 4,058 | 8,055 |
| Energy Grant | - | 855 |
| Smart Grant | - | 1,421 |
| Received through ISD: | | |
| IDEA RAISE Grant | 5,000 | - |
| MiBLSI Grant | 3,269 | 670 |
| Medicaid outreach | 5,658 | 5,550 |
| IDEA Flowthrough Grant | 3,919 | |
| Miscellaneous | - | 1,440 |
| TOTAL REVENUE FROM FEDERAL SOURCES | <u>267,360</u> | <u>322,866</u> |
| OTHER FINANCING SOURCES | | |
| Bus note proceeds | - | 125,940 |
| Transfer in from other funds | 5,515 | |
| OTHER FINANCING SOURCES | <u>5,515</u> | <u>125,940</u> |
| TOTAL REVENUE AND OTHER FINANCING SOURCES | <u>\$ 8,266,416</u> | <u>\$ 8,762,029</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

| | YEARS ENDED | |
|---------------------------------|-------------------------|-------------------------|
| | <u>JUNE 30,</u> | |
| | <u>2008</u> | <u>2007</u> |
| INSTRUCTION: | | |
| Basic programs: | | |
| Elementary: | | |
| Teacher salaries | \$ 1,173,453 | \$ 1,344,980 |
| Teacher aide salaries | 16,660 | 63,476 |
| Substitute teacher salaries | 744 | 2,023 |
| Employee benefits | 613,871 | 603,536 |
| Contracted services | 20,918 | 23,033 |
| Textbooks | 20,667 | 19,904 |
| Local travel | 309 | - |
| Copier expense | 11,100 | 8,090 |
| Teaching supplies | 30,407 | 42,909 |
| Miscellaneous expense | 976 | 888 |
| Capital outlay | 11,206 | - |
| Total elementary | <u>1,900,309</u> | <u>2,108,839</u> |
| Middle/Junior high: | | |
| Teacher salaries | 589,162 | 694,547 |
| Teacher aide salaries | 1,279 | 21,850 |
| Substitute teacher salaries | 471 | 647 |
| Employee benefits | 308,891 | 333,311 |
| Contracted services | 5,477 | 9,461 |
| Textbooks | 10,687 | 11,242 |
| Local travel | 669 | 192 |
| Copier expense | 6,000 | 3,398 |
| Teaching supplies | 14,200 | 14,386 |
| Miscellaneous expense | 611 | 846 |
| Capital outlay | 15,674 | - |
| Total Middle/Junior high | <u>953,122</u> | <u>1,089,881</u> |
| High school: | | |
| Teacher salaries | 851,696 | 917,392 |
| Teacher aide salaries | 3,771 | 3,062 |
| Substitute teacher salaries | 1,569 | 1,233 |
| Employee benefits | 433,015 | 448,942 |
| Contracted services | 14,087 | 16,796 |
| Local travel | 262 | 198 |
| Tuition | 70,277 | 52,975 |
| Textbooks | 29,552 | 10,556 |
| Copier expense | 10,050 | 8,026 |
| Teaching supplies | 41,759 | 46,725 |
| Miscellaneous expense | 696 | 773 |
| Capital outlay | 21,294 | 407 |
| Total high school | <u>1,478,029</u> | <u>1,507,086</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

| | YEARS ENDED | |
|-------------------------------------|-----------------|----------------|
| | <u>JUNE 30,</u> | |
| | <u>2008</u> | <u>2007</u> |
| INSTRUCTION: (CONTINUED) | | |
| Added needs: | | |
| Special education: | | |
| Teacher salaries | 299,530 | 371,271 |
| Substitute teacher salaries | - | 639 |
| Employee benefits | 155,350 | 164,957 |
| Contracted services | 9,332 | 13,523 |
| Conference and workshops | 294 | 946 |
| Textbooks | 6,134 | 3,668 |
| Teaching supplies | 4,179 | 2,388 |
| Miscellaneous supplies and expense | 3,881 | - |
| Total special education | <u>478,700</u> | <u>557,392</u> |
| Vocational education: | | |
| Teacher salaries | 80,161 | 78,969 |
| Employee benefits | 36,355 | 35,303 |
| Contracted services | 1,154 | 1,087 |
| Local travel | 3,243 | 2,581 |
| Supplies and materials | 2,960 | 4,149 |
| Miscellaneous expense | 1,695 | 1,495 |
| Total vocational education | <u>125,568</u> | <u>123,585</u> |
| Compensatory education: | | |
| Teacher salaries | 86,093 | 143,687 |
| Teacher aide salaries | 87,564 | 42,687 |
| Substitute teacher salaries | - | 380 |
| Employee benefits | 64,519 | 79,875 |
| Audit fee | 2,368 | 2,450 |
| Purchased services | 2,586 | |
| Supplies and materials | 3,413 | 3,612 |
| Parent activity | 187 | 702 |
| Total compensatory education | <u>246,729</u> | <u>273,394</u> |
| At risk education: | | |
| Teacher salaries | 75,691 | 80,393 |
| Teacher aide salaries | 44,793 | 67,655 |
| Substitute teacher salaries | 1,914 | 148 |
| Employee benefits | 47,461 | 57,630 |
| Teaching supplies | 820 | 137 |
| Total at risk education | <u>170,680</u> | <u>205,962</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

| | YEARS ENDED JUNE 30, | |
|--------------------------------|-------------------------|------------------|
| | <u>2008</u> | <u>2007</u> |
| INSTRUCTION (CONTINUED) | | |
| Added needs: (Continued) | | |
| Driver education: | | |
| Teacher salaries | 7,571 | 11,213 |
| Employee benefits | 1,449 | 1,678 |
| Vehicle lease | 500 | 2,702 |
| Supplies | 1,783 | 1,247 |
| Total driver education | <u>11,303</u> | <u>16,840</u> |
| TOTAL INSTRUCTION | <u>5,364,439</u> | <u>5,882,978</u> |
| SUPPORTING SERVICES: | | |
| Pupil services: | | |
| Guidance services: | | |
| Counselor salaries | 49,156 | 82,671 |
| Secretarial salaries | 26,544 | 25,952 |
| Employee benefits | 47,384 | 61,619 |
| Conference and workshops | 15 | |
| Supplies | 1,303 | 1,955 |
| Miscellaneous expense | 2,372 | 3,024 |
| Total guidance services | <u>126,775</u> | <u>175,222</u> |
| Health services: | | |
| Supplies | - | 555 |
| Total health services | <u>-</u> | <u>555</u> |
| Instruction: | | |
| Library: | | |
| Librarian salaries | 38,322 | 33,640 |
| Library sub salaries | 5,082 | 4,390 |
| Employee benefits | 13,494 | 11,216 |
| Books and periodicals | 3,826 | 6,597 |
| Library supplies | 1,957 | 430 |
| Miscellaneous expense | 2,837 | 1,896 |
| Total library | <u>65,518</u> | <u>58,169</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

| | YEARS ENDED <u>JUNE 30,</u> | |
|---|--------------------------------|----------------|
| | <u>2008</u> | <u>2007</u> |
| SUPPORTING SERVICES: (CONTINUED) | | |
| Instruction: (Continued) | | |
| School improvement: | | |
| Salaries | 3,150 | |
| Contracted services | 4,120 | 4,756 |
| Employee benefits | 775 | |
| Workshops and conferences | 4,095 | 13,689 |
| Supplies | 1,760 | 1,213 |
| Miscellaneous expense | 1,000 | 1,000 |
| Total school improvement | <u>14,899</u> | <u>20,658</u> |
| General administration: | | |
| Board of education: | | |
| Board salaries | 4,500 | 5,640 |
| Professional services | 9,471 | 26,146 |
| Conferences and workshops | 1,316 | 692 |
| Election expense | 2,287 | 209 |
| Dues and fees | 2,452 | 2,469 |
| Miscellaneous expense | 2,300 | 1,735 |
| Total board of education | <u>22,326</u> | <u>36,891</u> |
| Executive administration: | | |
| Superintendent salary | 101,420 | 95,627 |
| Secretarial salaries | 26,528 | 25,146 |
| Employee benefits | 57,340 | 48,862 |
| Conferences and workshops | - | 467 |
| Travel | 596 | 394 |
| Office expense | 3,883 | 4,282 |
| Dues and fees | 805 | 909 |
| Total executive administration | <u>190,572</u> | <u>175,687</u> |
| School administration: | | |
| Principal salaries | 200,359 | 200,128 |
| Secretarial salaries | 85,215 | 96,864 |
| Employee benefits | 157,464 | 147,805 |
| Travel | 479 | 531 |
| Conferences and workshops | 65 | 695 |
| Office expense and supplies | 14,040 | 14,192 |
| Dues and fees | 2,755 | 2,465 |
| Miscellaneous expense | 4,163 | 2,863 |
| Total school administration | <u>464,541</u> | <u>465,542</u> |

(Continued)

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

| | YEARS ENDED JUNE 30, | |
|---|-------------------------|----------------|
| | <u>2008</u> | <u>2007</u> |
| SUPPORTING SERVICES (CONTINUED) | | |
| Business administration: | | |
| Fiscal services: | | |
| Accounting services | 35,713 | 69,750 |
| Employee benefits | 10,748 | 24,132 |
| Contracted services | 23,188 | |
| Conferences and workshops | 135 | 1,587 |
| Travel | 112 | 117 |
| Office supplies | 2,612 | 2,828 |
| Dues and fees | 177 | 238 |
| Insurance | 13,225 | 13,841 |
| Miscellaneous expense | 493 | 527 |
| Total fiscal services | <u>86,402</u> | <u>113,019</u> |
| Technology support: | | |
| Technology coordinator | 3,041 | 30,507 |
| Employee benefits | 6,577 | 23,064 |
| Purchased services | 82,427 | 29,776 |
| Repairs | 300 | 1,646 |
| Supplies | 4,024 | 3,267 |
| Total technology support | <u>96,369</u> | <u>88,259</u> |
| Operation and maintenance of plant | | |
| Custodian salaries | 276,443 | 290,034 |
| Employee benefits | 182,097 | 179,815 |
| Heating fuel | 97,052 | 94,132 |
| Telephone, water and trash | 9,766 | 11,210 |
| Electricity | 115,172 | 119,034 |
| Windmill energy project | - | 35,955 |
| Repairs and maintenance | 44,387 | 26,925 |
| Insurance | 58,582 | 61,029 |
| Custodial supplies | 80,609 | 68,981 |
| Purchased services | 19,375 | 17,743 |
| Travel | | 83 |
| Dues and fees | 2,065 | 1,887 |
| Capital outlay | 45,815 | 13,206 |
| Other supplies | 15,737 | 14,475 |
| Total operation and maintenance of plant | <u>947,099</u> | <u>934,509</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

| | YEARS ENDED | |
|--|------------------------|--------------------|
| | <u>JUNE 30,</u> | |
| | <u>2008</u> | <u>2007</u> |
| SUPPORTING SERVICES (CONTINUED) | | |
| Business administration (Continued) | | |
| Pupil transportation: | | |
| Bus mechanic salary | 43,289 | 42,649 |
| Bus driver salaries | 184,662 | 177,786 |
| Employee benefits | 87,327 | 85,766 |
| Workshops | 1,519 | 1,231 |
| Repairs and maintenance | 32,597 | 31,182 |
| Utilities | 1,188 | 1,014 |
| Insurance | 9,225 | 10,099 |
| Gas, oil, and grease | 98,389 | 67,784 |
| Tires, tube and batteries | 6,546 | 4,696 |
| Dues and fees | 10,479 | 1,127 |
| Other supplies | 2,820 | 1,102 |
| Capital outlay | - | 125,940 |
| Total pupil transportation | 478,040 | 550,376 |
| Staff relations | 18,661 | 29,252 |
| Total business administration | 1,626,570 | 1,715,415 |
| TOTAL SUPPORTING SERVICES | 2,511,201 | 2,648,139 |
| DEBT SERVICE | | |
| Principal retirement: | | |
| Bus contracts | 23,113 | 13,070 |
| Total principal retirement | 23,113 | 13,070 |
| Interest and fiscal charges: | 55,671 | 59,648 |
| TOTAL DEBT SERVICE | 78,784 | 72,718 |
| TOTAL EXPENDITURES | 7,954,424 | 8,603,834 |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

| | YEARS ENDED | |
|---|---------------------|---------------------|
| | <u>JUNE 30,</u> | |
| | <u>2008</u> | <u>2007</u> |
| OTHER FINANCING USES | | |
| Operating transfers to Athletic fund | 144,386 | 136,866 |
| Outgoing transfer - Huron Intermediate | <u>16,000</u> | <u>27,131</u> |
| TOTAL OTHER FINANCING USES | 160,386 | 163,997 |
| TOTAL EXPENDITURES AND OTHER | | |
| FINANCING USES | <u>\$ 8,114,810</u> | <u>\$ 8,767,831</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
AGENCY FUND - STUDENT ACTIVITIES - BOARD CONTROLLED
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>BALANCE JULY 1, 2007</u> | <u>RECEIPTS</u> | <u>DISBURSEMENTS</u> | <u>BALANCE JUNE 30, 2008</u> |
|--------------------------|---------------------------------|------------------|----------------------|----------------------------------|
| HIGH SCHOOL | | | | |
| Band | \$ 1,654 | \$ 12,397 | \$ 11,560 | \$ 2,491 |
| Graduated classes | 7,655 | | | 7,655 |
| Interest on savings | 2,661 | 515 | 1,332 | 1,844 |
| Principal's office | 1,902 | 3,278 | 3,165 | 2,015 |
| Revolving | 858 | 3,250 | 3,322 | 786 |
| Wood shop | 553 | 2,810 | 3,031 | 332 |
| TOTAL HIGH SCHOOL | <u>15,283</u> | <u>22,250</u> | <u>22,410</u> | <u>15,123</u> |
| JUNIOR HIGH | | | | |
| Interest | 1,194 | 284 | | 1,478 |
| Office account | 14,767 | 2,108 | 5,125 | 11,750 |
| TOTAL JUNIOR HIGH | <u>15,961</u> | <u>2,392</u> | <u>5,125</u> | <u>13,228</u> |
| LAKER ELEMENTARY | | | | |
| Activity | 17,345 | 22,388 | 15,218 | 24,515 |
| TOTALS | <u>\$ 48,589</u> | <u>\$ 47,030</u> | <u>\$ 42,753</u> | <u>\$ 52,866</u> |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
AGENCY FUND - STUDENT ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>BALANCE JULY 1, 2007</u> | <u>RECEIPTS</u> | <u>DISBURSEMENTS</u> | <u>BALANCE JUNE 30, 2008</u> |
|-----------------------|---------------------------------|-------------------|----------------------|----------------------------------|
| High School | \$ 47,190 | \$ 153,774 | \$ 149,982 | \$ 50,982 |
| Junior High | 12,606 | 83,252 | 77,862 | 17,996 |
| DeGrow Scholarship | 2,407 | 128 | 2,535 | - |
| Fine Arts | 53,228 | 133 | | 53,361 |
| Kasserman Scholarship | 47,321 | 2,202 | 2,202 | 47,321 |
| TOTALS | <u>\$ 162,752</u> | <u>\$ 239,489</u> | <u>\$ 232,581</u> | <u>\$ 169,660</u> |

ELKTON-PIGEON-BAYPORT LAKER SCHOOLS

**SCHEDULE OF BONDED INDEBTEDNESS
2000 SCHOOL BUILDING AND SITE BONDS
JUNE 30, 2008**

| Fiscal Year ending <u>June 30,</u> | Interest <u>Rate</u> | Interest due | | Principal <u>May - 1</u> | Total due <u>Annually</u> |
|---|---------------------------------|-----------------------|-----------------------|-------------------------------------|--------------------------------------|
| | | <u>Nov - 1</u> | <u>May - 1</u> | | |
| 2009 | 5.125% | \$ 18,194 | \$ 18,194 | \$ 345,000 | \$ 381,388 |
| 2010 | 5.125% | 9,353 | 9,353 | 365,000 | 383,706 |
| Total | | <u>\$ 27,547</u> | <u>\$ 27,547</u> | <u>\$ 710,000</u> | <u>\$ 765,094</u> |

Purpose of Issue: Erecting, furnishing and equipping a centralized elementary school.

ELKTON-PIGEON-BAYPORT LAKER SCHOOLS

SCHEDULE OF BONDED INDEBTEDNESS 2005 REFUNDING BONDS JUNE 30, 2008

| Fiscal Year ending June 30, | Interest Rate | Interest due | | Principal May - 1 | Total due Annually |
|--|--------------------------|---------------------|---------------------|------------------------------|-------------------------------|
| | | Nov - 1 | May - 1 | | |
| 2009 | | \$ 186,800 | \$ 186,800 | | \$ 373,600 |
| 2010 | | 186,800 | 186,800 | | 373,600 |
| 2011 | 4.000% | 186,800 | 186,800 | \$ 430,000 | 803,600 |
| 2012 | 5.000% | 178,200 | 178,200 | 455,000 | 811,400 |
| 2013 | 5.000% | 166,825 | 166,825 | 480,000 | 813,650 |
| 2014 | 5.000% | 154,825 | 154,825 | 505,000 | 814,650 |
| 2015 | 5.000% | 142,200 | 142,200 | 535,000 | 819,400 |
| 2016 | 4.000% | 128,825 | 128,825 | 560,000 | 817,650 |
| 2017 | 4.000% | 117,625 | 117,625 | 585,000 | 820,250 |
| 2018 | 4.000% | 105,925 | 105,925 | 610,000 | 821,850 |
| 2019 | 4.000% | 93,725 | 93,725 | 635,000 | 822,450 |
| 2020 | 4.000% | 81,025 | 81,025 | 635,000 | 797,050 |
| 2021 | 4.125% | 68,325 | 68,325 | 635,000 | 771,650 |
| 2022 | 4.200% | 55,228 | 55,228 | 645,000 | 755,456 |
| 2023 | 4.250% | 41,683 | 41,683 | 645,000 | 728,366 |
| 2024 | 4.300% | 27,977 | 27,977 | 645,000 | 700,954 |
| 2025 | 4.375% | 14,109 | 14,109 | 645,000 | 673,218 |
| Total | | \$ 1,936,897 | \$ 1,936,897 | \$ 8,645,000 | \$ 12,518,794 |

On March 21, 2005 a portion of the 2000 School Building and Site Bonds were refunded.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Elkton-Pigeon-Bay Port Laker Schools
Pigeon, Michigan 48755

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton-Pigeon-Bay Port Laker School District as of and for the year ended June 30, 2008, which collectively comprise Elkton-Pigeon-Bay Port Laker Schools basic financial statements and have issued our report thereon dated October 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elkton-Pigeon-Bay Port Laker School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Elkton-Pigeon-Bay Port Laker School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Elkton-Pigeon-Bay Port Laker School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Elkton-Pigeon-Bay Port Laker School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Elkton-Pigeon-Bay Port Laker School District's financial statements that is more than inconsequential will not be prevented or detected by Elkton-Pigeon-Bay Port Laker School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. (2008-1 - 2008-4)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Elkton-Pigeon-Bay Port Laker School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-3 and 2008-4 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elkton-Pigeon-Bay Port Laker School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

October 2, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Elkton-Pigeon-Bay Port Laker Schools
Pigeon, Michigan 48755

Compliance

We have audited the compliance of Elkton-Pigeon-Bay Port Laker Schools, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Elkton-Pigeon-Bay Port Laker School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Elkton-Pigeon-Bay Port Laker School's management. Our responsibility is to express an opinion on Elkton-Pigeon-Bay Port Laker School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Elkton-Pigeon-Bay Port Laker School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Elkton-Pigeon-Bay Port Laker School's compliance with those requirements.

In our opinion, Elkton-Pigeon-Bay Port Laker Schools, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Elkton-Pigeon-Bay Port Laker Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Elkton-Pigeon-Bay Port Laker School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal program.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

Elkton-Pigeon-Bay Port Laker School's response to the findings, identified in our audit, are described in the accompanying schedule of findings and questioned costs. We did not audit Elkton-Pigeon-Bay Port Laker School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

October 2, 2008

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

There were no findings or questioned costs for the year ended June 30, 2007.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) that are not considered to be material weakness? X Yes None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) that are not considered to be material weakness? Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

 Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.010 | Title I |

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as a low risk auditee?

 X Yes No

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

B. FINDINGS-FINANCIAL STATEMENTS AUDIT

Significant Deficiencies

2008-1 Cash Receipts

Condition: Presently, a single individual collects the cash receipts, prepares the bank deposits and records the receipts.

Criteria: To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

Effect: This could allow for unrecorded funds or incorrectly recorded funds.

Recommendation: We suggest that the cash custody duties be separated from the record keeping duties if possible

Response: The chief financial officer will review the recording of all daily receipts. In addition, he will also review cash receipt reports when necessary.

2008-2 Payroll Process

Condition: One employee is currently entering all of the payroll information, printing manual checks with the signatures printed on the checks along with authorizing the ACH transaction for the direct payroll deposit without an independent review of the transaction before the deposit is made.

Criteria: Payroll transactions should be reviewed for accuracy and the signature on the checks should not be able to be printed by the person who enters the payroll information.

Effect: Segregation of the payroll processes are necessary to ensure that only hired employees are being paid the board approved wages and that the amounts are being properly distributed through direct deposit or manual checks and are being correctly accounted for.

Recommendation: The internal control for the payroll process could be improved by adding a review of the payroll transaction before the ACH transaction is made and the checks are printed and having the signature independent of the accounting software.

Response: The superintendent will be physically signing payroll checks and the chief financial officer will be authorized as a backup to sign as well. The chief financial officer will review the payroll before the payroll clerk performs the final process.

Material Weaknesses

2008-3 Preparation of Year End Closing Procedures

Condition: This year, we assisted the accounting staff with the basic year-end bookkeeping and accounting procedures that are necessary to prepare the books for audit purposes. This also included the preparation of several material year end adjusting entries that were necessary to keep the financial statements from being materially misstated.

Criteria: The accounting staff should be able to perform the year end closing procedures and prepare the appropriate year end closing entries in order to ensure that the year end financial statements are not materially misstated. Also, the year end closing procedures should be supervised and reviewed by a member of management with an adequate knowledge of the School's activities during the fiscal year.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

B. FINDINGS-FINANCIAL STATEMENTS AUDIT (CONTINUED)

Material Weaknesses (Continued)

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: With adequate training, the accounting staff should become familiar with the necessary procedures to complete the year end accounting. In time, the condition of the accounting records should become better and less assistance will be required in this area by the auditors. We suggest that the School provide its accounting staff with the necessary training to ensure they are able to efficiently prepare the year end accounting for the audit.

Response: The District does not intend to increase the accounting staff in the central office in order to continue to generate a savings to the general fund. Therefore, the in-house accounting staff will require additional training, to complete the preparation for year end closing. It is the goal of the District to have the accounting staff prepared to complete this task within the next couple of years. In the interim, the District will by necessity continue to subcontract this task to an independent firm.

2008-4 Preparation of the GAAP Basis Financial Statements

Condition: Along with assisting with the year end closing procedures to the School's accounting records, we also assisted the School by preparing the annual financial statements (including required disclosures) of the School prepared in accordance with generally accepted accounting principles.

Criteria: The responsibility for the School's annual financial statements prepared in accordance with generally accepted accounting principles rests with the management of the School. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated.

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: We recommend that the School acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with generally accepted accounting principles.

Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. None.

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal Grantor Pass Through Grantor Program Title | Federal CFDA Number | Pass- Through Grantor's Number | Approved Grant Award Amount | Memo Only Prior Year Expenditures | Accrued or (Deferred) Revenue 7/1/2007 | Adjustments and Transfers | Current Year Receipts (Cash basis) | Current Year Expenditures | Accrued (Deferred) Revenue 6/30/2008 |
|---|---------------------------|---|-----------------------------------|--|---|---------------------------------|---|---------------------------------|---|
| U.S. Department of Agriculture <i>Child Nutrition Cluster:</i> | | | | | | | | | |
| Passed Through MDE | | | | | | | | | |
| Section 4 All Lunches | 10.555 | | \$ 30,538 | | | | \$ 30,538 | \$ 30,538 | |
| Section 11 Free & Reduced | 10.555 | | 124,330 | | | | 124,330 | 124,330 | |
| Total | | | 154,868 | | | | 154,868 | 154,868 | |
| Breakfast | | | | | | | | | |
| Total Child Nutrition Cluster | 10.553 | | 31,559 | | | | 31,559 | 31,559 | |
| | | | 186,427 | | | | 186,427 | 186,427 | |
| Entitlement Commodities | 10.550 | | 31,168 | | | | 31,168 | 31,168 | |
| Total U.S. Department of Agriculture | | | 217,595 | | | | 217,595 | 217,595 | |
| U.S. Department Health & Human Serv. | | | | | | | | | |
| Passed through ISD | | | | | | | | | |
| Medicaid Outreach | 93.778 | | 5,658 | | | | 5,658 | 5,658 | |
| U. S. Department of Energy | | | | | | | | | |
| Biomass Energy Grant | 81.041 | PLA-08-11 | 10,107 | | | | 10,107 | 10,107 | 10,107 |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor Pass Through Grantor Program Title | Federal CFDA Number | Pass- Through Grantor's Number | Approved Grant Award Amount | Memo Only Prior Year Expenditures | Accrued or (Deferred) Revenue 7/1/2007 | Adjustments and Transfers | Current Year Receipts (Cash basis) | Current Year Expenditures | Accrued (Deferred) Revenue 6/30/2008 |
|--|---------------------------|---|-----------------------------------|--|---|---------------------------------|---|---------------------------------|---|
| U.S. Department of Education | | | | | | | | | |
| Passed Through MDE | | | | | | | | | |
| Title I Part A | 84.010 | 081530/0708 | 171,827 | | | 4,474 | 145,901 | 176,301 | 25,926 |
| Title I Part A | 84.010 | 071530/0607 | 189,865 | | 25,906 | 7,818 | 25,906 | 7,818 | |
| Title II Part D | 84.318 | 084290/0708 | 2,354 | | | | 2,354 | 2,354 | |
| Title II Part A Imp Teacher Quality | 84.367 | 070520/0607 | 80,750 | | 12,749 | | 14,731 | 1,982 | |
| Title II Part A | 84.367 | 080520/0708 | 81,414 | | | | 16,833 | 66,845 | 50,012 |
| Title IV Drug-free schools | 84.186 | 082860/0708 | 5,266 | | | | 3,995 | 3,995 | |
| Title IV Drug-free schools | 84.186 | 072860/0708 | 476 | | 161 | | 224 | 224 | |
| Title IV Drug-free schools | 84.186 | 072860/0607 | 5,485 | | | | 161 | 2,183 | |
| Title V Part A | 84.298 | 080250/0708 | 2,381 | | | | 2,183 | 2,183 | |
| Title V LEA Allocation | 84.298 | 070250/0607 | 2,893 | | 351 | | 615 | 264 | |
| Total Passed Through MDE | | | 542,711 | | 39,167 | 12,292 | 212,903 | 261,966 | 75,938 |
| Passed through ISD | | | | | | | | | |
| IDEA Grant | 84.027 | 070450/0607 | 5,000 | | (5,000) | | | 5,000 | |
| IDEA Flowthrough | 84.027 | 0804500/0708 | 3,919 | | | | 3,919 | 3,919 | |
| MI/LSI Grant 2006-07 | 84.027A | | 2,500 | | (1,884) | | 1,385 | 1,884 | |
| MI/LSI Grant 2007-08 | 84.027A | | 1,385 | | (6,884) | | 5,304 | 1,385 | |
| Total Passed Through ISD | | | 12,804 | | (6,884) | | 12,188 | 12,188 | |
| Total U.S. Department of Education | | | 555,515 | | 32,283 | 12,292 | 218,207 | 274,154 | 75,938 |
| Total Federal Financial Assistance | | | \$ 788,875 | | \$ 32,283 | \$ 12,292 | \$ 441,460 | \$ 507,514 | \$ 86,045 |

ELKTON-PIGEON-BAY PORT LAKER SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

Notes

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the District's federal awards and does not present transactions that would be included in financial statements of the District presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report and Grant Auditor's Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities.
5. The program tested as a major program was Title I, CFDA #84.010.
6. Reconciliation to the Financial Statements:

| | |
|---------------------------|------------------|
| General Fund | \$289,919 |
| Special Revenue Funds: | |
| Food Service Fund | <u>217,595</u> |
| Current Year Expenditures | <u>\$507,514</u> |

7. Reconciliation of Schedule of Federal Expenditures:

| | |
|--|------------------|
| Total Expenditures | <u>\$507,514</u> |
| Total Receipts (Cash Basis) | \$441,460 |
| Accrued revenue 2006/07 | (32,283) |
| Accrued revenue 2007/08 | 86,045 |
| Adjustment – general revenues used to support program (Title I) | <u>12,292</u> |
| Total | <u>\$507,514</u> |



Nietzke & Faupel, PC

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Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

October 2, 2008

To the Board of Education
Elkton-Pigeon-Bay Port Laker Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Elkton-Pigeon-Bay Port Laker Schools for the year ended June 30, 2008, and have issued our report thereon dated October 2, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated April 28, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Elkton-Pigeon-Bay Port Laker School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Elkton-Pigeon-Bay Port Laker School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Elkton-Pigeon-Bay Port Laker School's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Elkton-Pigeon-Bay Port Laker School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Elkton-Pigeon-Bay Port Laker School's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 25, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Elkton-Pigeon-Bay Port Laker Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus.

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated liability for compensated absences and estimated fixed asset lives for depreciation.

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management estimates the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Elkton-Pigeon-Bay Port Laker Schools and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, PC
SEBEWAING, MICHIGAN

October 2, 2008